

Message Text

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ACTION EB-12

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-14 ISO-00 AEC-11

AID-05 CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00 FEAE-00

FPC-01 H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 IO-14 USIE-00 OPIC-12 IGA-02 SSO-00 NSCE-00

INRE-00 PA-04 PRS-01 DRC-01 /227 W

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC IMMEDIATE 6150

INFO AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY DHAHRAN

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS CARACAS 9820

E.O. 11652: N/A

TAGS: ENRG, EFIN, VE

SUBJ: OIL COMPANY REACTION TO INCOME TAX INCREASE

REF: CARACAS 9768

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1. CREOLE AND SHELL OIL COMPANIES ISSUED PUBLIC STATEMENTS

IN RESPONSE TO OIL INCOME TAX INCREASE BY GOV, WITH CREOLE SIMULTANEOUSLY RELEASING STATEMENT IN NEW YORK. THE NEW YORK RELEASE APPEARED IN CARACAS NEWSPAPERS THIS MORNING, OCTOBER 3. OTHER OIL COMPANIES HAVE COMMENTED PRIVATELY TO EMBASSY, BUT HAVE AS YET NOT GIVEN PUBLIC ESTIMATES OF NEW TAX COST.

2. CREOLE, IN CARACAS PRESS RELEASE, STATED 3.5 PERCENT TAX INCREASE RETROACTIVE TO BEGINNING OF 1974 WILL RESULT IN ADDITIONAL BS 360 MILLION (US\$85.7 MILLION AT PETROLEUM RATE OF BS 4.20 - \$1.00) TAX COST TO COMPANY FOR FIRST HALF OF 1974. AS A CONSEQUENCE, THE NET EARNINGS CREOLE PREVIOUSLY REPORTED TO SHAREHOLDERS OF 35 US CENTS PER BARREL FOR THAT PERIOD HAVE BEEN RECALCULATED INTO A NET LOSS OF TWO US CENTS PER BARREL. COMPANY CALCULATION OF GOV TAKE RISES FROM PREVIOUS 97 PERCENT TO MORE THAN ONE HUNDRED PERCENT OF EARNINGS, GIVING CREOLE FIRST NET LOSS IN ITS HISTORY. COMPANY STATES IT IS PREMATURE TO ESTIMATE SECOND HALF 1974 EARNINGS, OTHER THAN IN VIEW OF NEW TAX SAID EARNINGS WILL BE MUCH LOWER THAN 1973.

3. SECOND PRESS RELEASE FOR NEW YORK, COPY OF WHICH GIVEN EMBASSY, CONTAINS TABLES ON ORIGINAL CREOLE SIX MONTHS EARNINGS AND RESTATEMENT OF SAME INCORPORATING NEW TAX RATE. ORIGINAL TOTAL REVENUE FOR FIRST SIX MONTHS 1974 WAS US \$2,331,200,000 OF WHICH \$2,004,700,000 WAS ASCRIBED TO TAXES AND \$81,300,000 TO NET INCOME OR NET INCOME PER SHARE OF \$1.05. RESTATED EARNINGS SHOW SAME REVENUE WITH ALL TAXES OF \$2,089,600,000 AND NET LOSS OF \$3,600,000, OR NET LOSS PER SHARE OF FIVE US CENTS.

4. SHELL COMPANY PUBLICLY ESTIMATES TAX COST INCREASE OF BS 400,000,000 (US\$95,238,000) WITH TOTAL TAX BILL FOR 1974 RISING TO BS 10 BILLION (US\$2.4 BILLION). ATLANTIC RICHFIELD MANAGER ESTIMATED TO EMBASSY TAX INCREASE WILL COST TWO ASSOCIATED COMPANIES, SINCLAIR AND VARCO, WHICH ARE VENEZUELAN OPERATING SUBSIDIARIES OF PARENT COMPANY, ADDITIONAL \$8 MILLION IN 1974 TAXES.

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5. ALL COMPANIES EMBASSY HAS CONSULTED, WITH NOTABLE EXCEPTION OF CREOLE, STOP SHORT OF CLAIMING NEW TAX INCREASE PUTS THEM INTO NET LOSS OPERATION. COMPANIES CONSULTED INCLUDE MENE GRANDE (GULF), MOBIL, SHELL, AND ATLANTIC RICHFIELD. ALL COMPANIES CONSULTED SAY THEY COULD BE THROWN INTO NET LOSS POSITION SHOULD GOV NOT PERMIT CARRY FORWARD OF TAX INCENTIVE, WHICH FOR SOME COMPANIES AMOUNTS TO TWO PERCENT.

MINISTRY SOURCES HAVE INDICATED TO COMPANIES AND
EMBASSY THAT INCENTIVE TAX CARRY FORWARD WILL BE ALLOWED.

6. WHEN ASKED WHETHER COMPANY WILL ATTEMPT TO PASS ON
TAX INCREASE, CREOLE OFFICIAL TOLD EMBASSY THAT MOST
OF THEIR PRESENT CONTRACTS CONTAIN PROVISION FOR
ADJUSTING PRICES BACK FOR SIXTY DAYS, AND IN CASES
WHERE CUSTOMERS HAVE LONGER CREDIT TERMS, THE BACKWARD
ADJUSTMENT CAN EXTEND TO THE LENGTH OF THE CREDIT
ARRANGEMENT. CREOLE THEREFORE HAS OPTION OF NOTIFYING
CUSTOMERS IN TWO CATEGORIES MENTIONED OF TAX INCREASE
AND BILLING THEM ACCORDINGLY.
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